



TOBACCO TAX PROGRAM

State Cigarette Tax: Since July 1997, the Washington State Liquor Control Board has had the responsibility of enforcing the state's tobacco tax laws. As of January 2002, Washington imposes a cigarette tax of \$1.425 per pack (\$14.25 per carton) on the sale, use, consumption, possession, or distribution of cigarettes, an increase of 60-cents. The state's \$1.425 cigarette tax is distributed by law into four funds. (See graphic)

Some people do not pay this tax. As a consequence, the Department of Revenue estimates the state loses approximately \$106 million in cigarette tax revenues each year.

Tax Revenue Loss: Loss of revenue occurs when non-tribal or non-military persons neglect to pay the cigarette tax. [Federal law exempts two categories of individuals from paying state tobacco taxes: active duty and retired military personnel and their dependents; and enrolled members of federally recognized Native American Tribes.]

Tax revenues are also lost when people purchase cigarettes from out-of-state and bring them back into Washington, either for resale or personal use.

Enforcement Actions: *Since 1997, the Liquor Control Board, through its enforcement actions, has assisted the state in recouping \$1.86 million in lost cigarette tax revenues.*

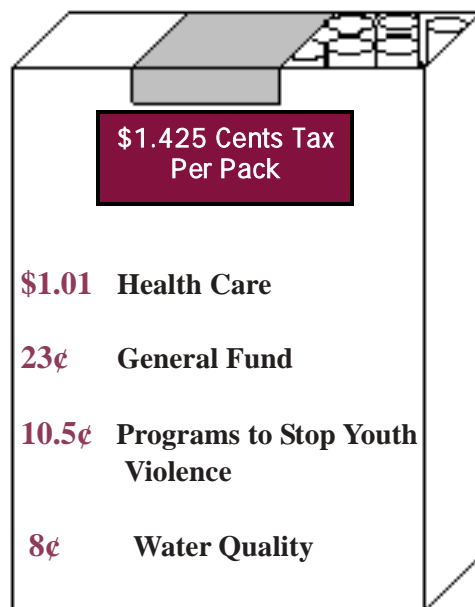
There are four methods the Liquor Control Board uses to enforce the tobacco tax laws and recover revenue for the state, they are:

1. Large Seizures
2. Internet Sales
3. Individual Purchaser Operations
4. Auctions

The **large seizures** involve months of investigative work and staff hours but have netted the most revenue for the state.

The state also loses cigarette tax revenue through **sales over the internet** whenever lower prices and convenience shopping attract potential buyers (the cigarette tax is not figured into internet prices). The Jenkins Act allows the state Department of Revenue to monitor these purchases. This Act requires interstate shippers of cigarettes to notify a state of the company's intention to ship cigarettes into that state. Once the Department of Revenue receives the notification list, the Liquor Control Board assists in collecting the taxes due. Through this process, **\$12,000 in cigarette tax revenues have been paid back to the state.**

Where the Cigarette Tax Goes



Liquor enforcement agents also conduct “**individual purchaser operations**” to collect cigarette tax revenue for the state. These operations consist of liquor agents personally witnessing the sale of untaxed cigarettes to “non-exempt persons” and imposing fines for evading the cigarette tax.

To date, the Liquor Control Board has conducted 12 purchaser operations, confiscating 1,293 packs of cigarettes with a tax value of \$1,066.73.

Another way to recover lost tax revenue is through auctions. RCW 82.24.130 allows for seizure of the vehicle used to transport untaxed cigarettes. The Board has confiscated nine vehicles, worth over \$61,000, which were used to transport untaxed cigarettes.

Once litigation is complete on a seizure of cigarettes, the Board can then start the process of auctioning off the seized cigarettes. The auctions are only open to cigarette wholesalers who have cigarette stamping authority. Currently the Board has conducted **ten auctions** with proceeds of **\$1,072,500**. The total cigarette tax paid by wholesalers, who bought seized cigarettes at auction, is **\$781,415**.

Penalties: It is a gross misdemeanor to possess or transport untaxed cigarettes in Washington state. After a violation, the following civil penalties apply:

- Seizure of the cigarettes
- Seizure of the vehicle used to transport the cigarettes
- A remedial penalty of either \$10 per pack or \$250 (whichever is greater)
- Taxes and interest

It is a Class C Felony to be in possession of more than 60,000 untaxed cigarettes. In addition to the above penalties, conviction could result in jail time.

The Liquor Control Board has noticed positive changes since the tobacco tax program began in 1997.

- Because of increased enforcement activity, several smoke shops on Native American Reservations have risen prices and imposed purchase limitations.
- Several smoke shops are now buying tax-paid stamped and exempt stamped cigarettes under the allotment process administered by the Department of Revenue. (They previously did not participate in the program.)
- Several wholesalers are reporting sales of tax paid cigarettes to new retailers who previously sold untaxed cigarettes.

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